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June 29, 2018

Board of Selectmen
Town of Shirley
7 Keady Way
Shirley, Massachusetts 01464

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Shirley, Massachusetts as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Shirley, Massachusetts' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Shirley, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Shirley, Massachusetts' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control (reconciliation of Accounts Receivable) that we consider to be a material weakness

In addition, there are other matters that we do not consider to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Reconciliation of Accounts Receivable

The Town did not have formal procedures in place to reconcile "all" of the Town's accounts receivable from the Collector's detailed outstanding lists to the Accountant's general ledger balances. As a result, a considerable number of adjusting journal entries were required (supplemental property tax, sewer liens added to tax, correct revenue postings...) in order to more accurately reflect the accounts receivable balances as of June 30, 2017.

After the identified adjustments were made, several of the receivable accounts still had small variances that aggregated to an immaterial amount. However, the tax lien list was \$14,483 more than the amount recorded in the general ledger.

Monthly reconciling procedures are a fundamental element in a strong system of internal control. Performing this function in a timely manner each month can provide assurance that the financial data utilized to manage the Town is accurate.

We recommend that the Town Accountant and the Treasurer Collector work together each month to reconcile all of the Town's account receivable.

Sewer Fund – Debt Transactions

The bonds payable general ledger account in the Sewer fund was not reduced by the principal payments made (\$966,476) during fiscal year 2017. As a result, the general ledger account was overstated by that amount. In addition, the general ledger did not agree with sewer debt amortization schedule or with the *Statement of Indebtedness* filed with the Division of Local Services.

We recommend that the Town Accountant and Treasurer Collector reconcile the debt activity during the year end closing process.

Cash Reconciliation

During our fiscal year 2017 audit, we became aware that a formal reconciliation of cash between the Treasurer's records and the Town Accountants general ledger has not been performed since June 30, 2017 (i.e. all of fiscal year 2018). Absent a formal reconciliation, the monthly departmental budget versus actual expenditure reports (used to manage the Town's budget process) cannot be considered reliable. In addition, a formal monthly reconciliation between the Treasurer's records and the Town Accountant's general ledger provides a level of control assurance over the Town's most liquid asset.

Reconciling cash is a fundamental element in any strong system of internal control. Since the monthly reconciliations were not performed during fiscal year 2018, there will be a material weakness reported in the fiscal year 2018 financial statements.

There are several reasons why the monthly reconciliations were not performed. There has been significant turnover in key financial positions during the year. In some instances, key financial positions were not filled for considerable periods of time. When the positions were filled, there was a significant amount of "catch up" work required.

We believe that the Town is currently in a position to reestablish the systems of internal control related to cash. Both the Treasurer and the Accountant's offices are fully staffed with capable individuals. New processes have been established that should allow the Town to perform formal reconciliation procedures on a monthly basis.

Informational Items

Uniform Guidance

On December 26, 2013, OMB published its comprehensive overhaul of federal grant administrative, cost accounting, and audit policies in the Federal Register. This final guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), supersedes and combines the requirements of eight existing OMB Circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133). The Uniform Guidance significantly reforms federal grant making to focus resources on improving performance and outcomes with the intent to reduce administrative burdens for grant applicants and recipients and reduce the risk of waste, fraud, and abuse.

The Uniform Guidance is a substantial document that addresses (among many other topics) cost principles, internal controls, procurement requirements and audit requirements. The Uniform Guidance is effective December 26, 2014. New and incrementally-funded awards issued on or after December 26, 2014 will be subject to the Uniform Guidance. Audit Requirements will apply to audits of fiscal years beginning on or after December 26, 2014 (i.e. fiscal year 2016).

One of the primary focuses of the new Uniform Guidance (as it relates to grantees) is internal controls over federal grants. The meaning of “must” and “should” as they are used throughout the Uniform Guidance is clarified. “Must” is not optional, “should” is recommended.

Section 200.303 of the Uniform Guidance addresses internal controls and states:

The non-Federal entity (i.e. the Town) **must**:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls **should** be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity’s compliance with statute, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state and local laws regarding privacy and obligations of confidentiality.

The “Internal Control Integrated Framework” issued by the COSO commission identifies five components of internal control that they believe should be considered in every system of internal control.

The five components are:

- (1) **Control Environment** - The “tone at the top” should promote and expect ethical behavior.
- (2) **Risk Assessment** - Consider what could go wrong and what the impact is.
- (3) **Control Activities** - What controls have we established – reconciling, approvals, oversight...
- (4) **Communication and Information** - Is pertinent information captured, identified and communicated on a timely basis? Are records and information systems sufficient to provide reliable reporting and to demonstrate compliance with the federal award?
- (5) **Monitoring** - Are the internal controls operating as intended? Have controls become outdated or obsolete? Monitoring occurs in the course of everyday operations; it includes regular management & supervisory activities and other actions personnel take in performing their duties.

The Uniform Guidance requires that the internal control policies and procedures **must be in writing**.

The Uniform Guidance raises the threshold for the requirement of an audit performed under the Single Audit Act to \$750,000 of federal expenditures in a fiscal year. Although the Town may not fall under the requirements of the Single Audit Act in the near future, we recommend that the Town become familiar

with the new requirements of the Uniform Guidance and develop **written** internal control policies and procedures in order to comply with the Guidance

Procurement Rules for Expenditures of Federal Funds

The Uniform Guidance requirements pertain only to purchases made with federal funds. It identifies *Micro Purchases* as purchases of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold (currently \$10,000 and periodically adjusted for inflation). Micro purchases may be made by using sound business practices. The next threshold is the *Simplified Acquisition Threshold*, which means the dollar amount below which a non-Federal entity may purchase property or services using small purchase methods. When the small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. Currently, the simplified acquisition threshold is \$250,000, but, this threshold is periodically adjusted for inflation.

Purchases in excess of the Simplified Acquisition Threshold must be by sealed bids with formal advertising. The Uniform Guidance has specific language regarding what must be considered in the sealed bid process.

When the State and Federal requirements differ, the more stringent requirement must be followed for purchases made with federal funds.

The Uniform Guidance requires that internal control policies and procedures related to purchases made with federal funds **must be in writing**. Topics that must be addressed in the internal control procedures document relating to **procurement** include the following:

- **Must** maintain oversight to ensure contractors perform within the terms, conditions and specifications of the contracts or purchase orders.
- **Must** maintain written standards of conduct covering conflict of interest with respect to employees engaged in the selection, award and administration of contracts.
- **Must** maintain written standards of conduct covering organizational conflict of interest.
- **Must** avoid acquisition of unnecessary or duplicative items

The Federal government did provide a grace period of two fiscal years after the effective date for non-Federal entities to comply with the procurement standards in the Uniform Guidance **provided that the entity documents its intent to utilize the grace period**. As a result, the Uniform Guidance procurement rules were in effect for the Town in fiscal year 2018.

In addition, to other provisions required by the federal grantor, all contracts made by the Town under federal awards must have specific language as addressed in the Uniform Guidance in Appendix II to Part 200 – Contract Provisions for Non-Federal Entity Contracts Under Federal Awards. The appendix requires (at prescribed thresholds) contractual language related to: termination for cause, Equal Employment Opportunity, Davis Bacon Act, Debarment and Suspension, Byrd Anti-Lobbying Amendment and other contractual provisions.

We recommend that the Town review the procurement rules in the Uniform Guidance. Since the Uniform Guidance is constantly updated as federal requirements change, the following link should be utilized to ensure the Town has the most current version: http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

Since the Uniform Guidance is an extremely long document, the U. S. Department of Education has made available a document entitled: *Key Sections of Uniform Guidance Related to Procurement*. It can be obtained at the following link: <https://www2.ed.gov/policy/fund/guid/uniform-guidance/procurement.html>

Status of Prior Year's Findings

Tax Lien Receivable Report

The Town utilizes a software system to maintain the activity related to the Tax Liens accounts receivable. The software is from the same company that is used for the Real Estate and Personal Property taxes receivable.

When running Tax Lien reports required for reconciling purposes, we noted that the reports did not provide accurate information if the reports were back dated and run for a prior period. We attempted to run Tax Lien reports as of June 30, 2016 and the report included transactions up through the date that the report was run – not as of June 30. The Real Estate and Personal Property reports do not have the same problem.

We recommend that the Town review this issue with the software vendor. Until the report can be corrected, we recommend that the Town run all required tax lien reports on the last day of every month (i.e. before any activity from the next month affects the report). This will allow the Town to reconcile the Tax Lien outstanding list to the general ledger Tax Lien account.

Current Status

The software has a summary report that can be run for prior periods. However, the report that details each taxpayer cannot be run for prior periods.

Performance Bonds and Trust Funds

Banking Transfers

The Town maintains general ledger accounts and bank accounts for each of its performance bonds and trust funds. The balances in the general ledger should equal the respective bank balance, except for differences related to timing. When an expense related to a performance bond or trust fund is made on a vendor warrant, the activity reduces the appropriate performance bond/trust fund in the general ledger. Since all vendor warrants are paid from the Town's vendor bank account, banking transfers out of the performance bonds/trust funds are required to make the respective bank accounts equal the general ledger accounts. The same hold true for budgeted transfers out of trust funds.

Currently, several of the performance bond and trust fund bank accounts do not equal their respective general ledger accounts. The differences appear to be related to the banking transfers that must be made.

We recommend that the Town compare the current balances in the performance bonds/trust fund general ledger accounts to their respective bank accounts. Bank transfers should be made as deemed necessary.

Performance Bond Bank Accounts

The Town has over twenty bank accounts related to performance bonds. Each bank account must be reconciled and monitored. The Town has sixteen trust funds that are deposited in one bank/investment account. The trust fund account has sub-accounts to track the individual trust funds.

We recommend that the Town utilize a bank/investment account similar to the trust fund account for its performance bonds. This will simplify the transfer process and the bank reconciliation process.

Current Status

The recommendations have not, yet, been implemented.

Authorization of Warrants

In the past, Massachusetts General Laws allowed the Board of Selectmen (or any other Committee or multi-member Boards) to appoint one member to sign and authorize payroll warrants. At the next meeting, a majority of the Board/Committee had to approve the payroll.

The Modernization Act of 2016 provided that same statutory authority to vendor warrants. The new language in Massachusetts General Laws states:

“The board of selectmen may designate any 1 of its members for the purpose of approving bills or payrolls under this section; provided, however, that the member shall make available to the board, at the first meeting following such action, a record of such actions. This provision shall not limit the responsibility of each member of the board of selectmen in the event of a noncompliance with this section”.

Currently, all of the members must come to the Town Hall in order to sign the warrants.

There are other options are available that will allow the Board to authorize the warrants. Third party electronic signature platforms (i.e. DocuSign) allow people to electronically sign documents. The websites are typically secure and allow users to upload documents (i.e. warrants) for their review and electronic approval. Supporting invoices can, also, be scanned and uploaded (if requested by a Board member).

Utilizing an electronic signature website is simply another option that the Town may use in order to ensure that all warrants are approved in a timely manner. It does not preclude the Town from having some members manually sign the warrants if that is their preference.

Current Status

The Town has established procedures to ensure that warrants are signed in a timely manner.

Unclaimed Checks

The Town has some outstanding vendor and payroll checks that date back several years. Although the checks are not material in amount, it is important to have policies and procedures to clear the old checks from the outstanding check lists. Some of the outstanding vendor checks may be payable to active vendors. Therefore, it is possible that those outstanding checks were replaced by checks written on a subsequent warrant, but not voided in the accounting system. Other outstanding checks may fall under the State's abandoned property law (Massachusetts General Laws Chapter 200A Section 9A).

We recommend that the Town review the current outstanding lists. The Treasurer should determine whether the outstanding checks represent an amount still due to the employee/vendor or if they have been replaced by other checks. If the check has been replaced already, the outstanding check should be voided. If the employee/vendor still has a valid claim, the outstanding check should be voided and replaced. When the employee/vendor cannot be located, the procedures outlined in Massachusetts General Laws Chapter 200A Section 9A should be followed. Amendments to the law have changed the period of time that a check must be outstanding (one year provided the face of the check bears the statement “void if not cashed within 1 year from date of issue”) before the abandoned property process may begin. The amended law also changed the required method for notifying the payees that checks remain unclaimed. A summary of the procedures is noted below.

1. All Town checks should include the verbiage “void if not cashed within one year from date of issue” on their face.
2. After a check has been outstanding for one year the abandoned property process should begin.

3. Annually, the Treasurer should prepare a list of checks that have been outstanding for one year (date of check, check number, payee and amount). The bank should be notified to stop payment on the checks and the checks should be removed from the Town's outstanding check list. The Treasurer's cash book should be increased by the total of the list. In addition, the Treasurer should provide the Town Accountant with a copy of the list.
4. The Town Accountant should make a journal entry (or post an electronic batch created by the Treasurer) in the general ledger to increase the cash and the unclaimed checks liability accounts.
5. The Treasurer should begin the "notification" process in accordance with M.G.L. Chapter 200A, Section 9A which states:

The treasurer of the city, town or town may post such notice **using either of the following methods:** (1) by mailing the notice by first class mail, postage prepaid, to the last known address of the beneficiary or person entitled thereto; **or** (2) if the city, town or town maintains an official website, by posting the notice conspicuously on the website for not less than 60 days. If the apparent owner fails to respond within 60 days after the mailing or posting of the notice, the treasurer shall cause a notice of the check to be published in a newspaper of general circulation, printed in English, in the county in which the city or town is located.

In the event that funds appearing to be owed to a corporation, organization, beneficiary or person is \$100 or more and the deadline as provided in the notice has passed and no claim for the funds has been made, the treasurer shall cause an additional notice to be published in a newspaper of general circulation in the county in which the city, town or town is located; provided, however, that the notice shall provide an extended deadline beyond which funds shall not be claimed and such deadline shall be at least one year from the date of publication of the notice.

After the notice/publication/waiting period requirements have been met, any checks that remain unclaimed may be closed to the general fund's unreserved fund balance account.

Current Status

The recommendation has not, yet, been implemented.

Accounts Receivable

The Town performed procedures to reconcile the various accounts receivable from the Accountant's general ledger to the Collector's outstanding lists. However, the procedures were not performed in a timely manner. A strong system of internal control should allow employees "to detect and correct errors in a timely manner while performing their assigned functions."

We recommend that the Collector and Accountant work in conjunction to reconcile the accounts receivable in a timely manner. We believe that the reconciliations for a month should be completed prior to the end of the subsequent month, if possible.

Current Status

A formal process to reconcile the various accounts receivable each month has not been implemented.

Cyber Security

In recent months, several Massachusetts municipalities have had cyber-attacks on their computer systems. The attacks have ranged from annoying intrusions to an attempt to transfer millions of dollars out of a town's bank account. As a result, it has become increasingly important to keep town employees keenly aware of the constant threat of cyber-attacks.

In addition to the risk of financial loss, the Town must be concerned with confidential/sensitive personal information that is on its computer systems including social security numbers, employee benefit and retirement information and tax records.

We recommend that the Town have “ongoing” discussions on how to mitigate the risk of cyber-attacks.

Topics for the discussions should include:

- Policies – There should be documented rules for various situations.
 - Be cautious about opening attachments or downloading files from emails
 - Don’t click on, or reply to email or pop-up messages that ask for personal or financial information
 - Don’t email personal or financial information
 - Require strong passwords that **must** be changed periodically
- Training – The level of training could vary by department based on perceived need.
- Technical Controls – Do we have the right technology in place (i.e. current anti-virus software and malware remover)?

It appears that the threat of cyber-attacks is a way of life in our age of technology. As the perpetrators of the attacks continue to grow more sophisticated, it is important that the Town remain vigilant in its efforts to protect the Town’s assets and the confidential personal information maintained by the Town.

Current Status

A formal written policy has not yet been established.

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This communication is intended solely for the information and use of management, and those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our findings and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy given to us during the course of the engagement.

Very truly yours,

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants